LIQUIDITY RATIO AND DEPENDENCY RATIO - SUPPLEMENTAL PAGE 7

PURPOSE

The purpose of this schedule is to calculate the liquidity ratio and the dependency ratio.

SHORT-TERM INVESTMENTS

Include investments which can be marketed (or that will mature within one year) without significant risk of loss to the institution. Subinvestment quality securities that mature within one year may be placed here. However, analyze the marketability of each subinvestment quality security before inclusion.

<u>Interest-Bearing Balances</u> - Include interest-bearing balances having maturities of greater than one year in "other marketable assets."

<u>Adjustments: Other Money Market Instruments</u> - Include items such as commercial paper, bankers acceptances, or other such investments due in one year or less which are reported as loans or other assets.

OTHER MARKETABLE ASSETS

Include investments with maturities over one year which can be sold through established markets. Because of their maturity, however, analyze market risk. The importance of market risk will depend on the yield basis at which such assets are carried, as well as prevailing interest rate levels.

Reminder: Do not include stripped mortgage-backed securities and residuals.

<u>Other Investment Quality Securities</u> - Do not include subinvestment quality issues that mature in more than one year.

<u>Other Marketable Assets</u> - Include loans, investment quality corporate equities, and other assets which can be sold in established markets. Do not include loans here unless some feature assures their marketability. For example, include real estate mortgages pooled for sale through the GNMA program under a preestablished arrangement with GNMA. Also include investments in mutual funds unless they are of subinvestment quality.

CASH AND OTHER EXAMINATION ADJUSTMENTS

<u>Appreciation (Depreciation) in Above Securities</u> - This amount is <u>only</u> for those securities included in this schedule.

<u>Reserve Requirements Being Met By Any of Above</u> - This amount is taken from the Federal Reserve's Report of Required Reserves **FINAL** Report.

Note: Use the reserve requirement line item; <u>do not</u> use reserves to be maintained, required clearing balance, or the usable portion of vault cash.

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Liabilities Secured By Any of The Above: Include the amount of liabilities and contingent liabilities secured by assets included in this schedule (not the book value of the pledged assets.)

Note: There is one exception to this rule to avoid overstating the liquidity ratio. Under current instructions, the entire amount of pledged securities is included in liquid assets. However, if only the amount of the liabilities outstanding against these pledged securities is deducted from cash, short term, and marketable assets, this treatment gives the impression that all pledged securities are liquid when there are no or little corresponding liabilities outstanding. However, this assumption is not always true. Assess how easily the pledges can be removed. If pledged securities are not liquid, then deduct the book value of the pledged asset, rather than the secured liability, from cash, short term, and marketable assets. Footnote this adjustment when applicable.

Reminder: Overstatement of the liquidity ratio may also occur when long-term liabilities (other than deposits) are secured by liquid assets. The line item, "Less: Liabilities Secured by Any of Above," is subtracted from both the numerator and the denominator. Consequently, an inaccurate liquidity ratio is calculated when secured borrowings due over one year are subtracted from total deposits and short-term liabilities when these borrowings are not part of total deposits and short-term liabilities. If this situation occurs, the second line item, "Less: Liabilities Secured by Any of Above," should not include long-term liabilities. Footnote the difference between the two line items.

POTENTIALLY VOLATILE LIABILITIES

Include all liabilities, which by virtue of their short maturity, negotiated interest rates, and/or uninsured (or partially insured) status possess more than normal volatility.

Adjustments - Many deposit and liability accounts possess characteristics that are both "core" and "volatile." Be alert to these situations and, when appropriate, adjust for the "core" characteristics of "volatile liabilities" and/or the "volatile" characteristics of "core deposits." The analysis of deposit and liability accounts may indicate other items that for liquidity purposes should be included in "Potentially Volatile Liabilities" for liquidity purposes. Include these items here.

TOTAL CORE DEPOSITS

Other Time Deposits - This section may include deposits of both under $100M and $100M and over, depending on adjustments made in the potentially volatile liability section.

Reminder: If adjustments are made to potentially volatile liabilities (for example, a large depositor's transaction account is included in volatile liabilities), then do not included these deposits in core deposits. Account for all deposits, either as volatile funds or as core funds.

DEPENDENCY RATIO

This ratio, when positive, measures the extent that potentially volatile liabilities are being relied upon to fund longer-term assets. A negative ratio means that short-term investments exceed potentially volatile liabilities. Institutions with high positive ratios may expose themselves to liquidity risk if an event occurs which impacts their ability to retain these volatile funds.

Refer to the Liquidity-Component Ratios and Trends page instructions for potential differences between the dependency ratio and the volatile liability dependence ratio and appropriate report treatment.

FOOTNOTES

Use this section strictly for footnotes, not comments.